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UNCLAS SECTION 01 OF 02 DJIBOUTI 001238

SIPDIS

STATE FOR AF/E AND INL

JUSTICE FOR OIA AND AFMLS

TREASURY FOR FINCEN

E.O. 12958: N/A

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SUBJECT: DJIBOUTI - 2005-2006

INTERNATIONAL NARCOTICS CONTROL STRATEGY

REPORT INSTRUCTIONS PART II, FINANCIAL

CRIMES AND MONEY LAUNDERING

REF: STATE 210691

#### Introduction

1. Much of the information included in Post's 2004-2005 report remains the same with the exception that Djibouti intends to have an operational Financial Intelligence Unit by February 2006. Djibouti is still the most stable country in the Horn of Africa. It is a financial hub in the sub-region, thanks to its US dollar-pegged currency and its unrestricted foreign exchange. Officials from the Central Bank indicate that there were no recent instances of money laundering. The informal market remains important, and smuggled goods consist primarily of highly taxed cigarettes and alcohol. The Djibouti Free Zone (DFZ), managed by Dubai's Jebel Ali Free Zone, has approved and delivered several licenses to companies mainly from Gulf Countries. Djibouti is not considered an offshore financial center but offshore institutions are permitted, and even encouraged, to settle at the DFZ but Post is not aware of any existing offshore bank at the DFZ. Two existing commercial banks handle the bulk of financial transactions. The remainder of the demand is met by a growing number of "hawalas." The Central Bank makes efforts to monitor closely the activities of both the commercial banks and "hawalas."

#### Anti-Money Laundering Legislation

2. On February 22nd, 2001, Djibouti signed the United Nations International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which went into force on May 23rd, 2001. Legislation criminalizing the financing of terrorism, as requested by UN Security Council Resolution 1373, is included in the Anti-Money Laundering Law passed in December 2002 as Law No. 196/AN/02/4emeL. Drafted by the three-year-old National Committee on Terrorism, this document contains provisions for prevention of, and punishment for, money laundering.

3. The Anti-Money Laundering Law applies to financial institutions of all forms as well as professionals involved in financial matters. Regulated activities include money deposits, insurance, investment, real estate, casinos and entertainment. The legislation also addresses international cooperation and allows for the freezing or seizing of assets in suspected terrorist finance cases. The government regularly circulates the names of individuals and entities included on the UN 1267 sanctions committee's consolidated list. The law also requires financial institutions to verify customer information, including current residence. This verification process promotes rigorous transparency and strict control of transactions. Furthermore, it imposes criteria for the following: customer identification; communication of information; documentation related to international cooperation; surveillance procedures for suspect accounts; and legal protection of professional secrecy for individuals reporting suspect transactions.

4. Professionals convicted of facilitating money laundering or terrorist financing can face five to ten years in jail and a fine of DF 25 to 50 million (\$141,283 to 282,566). A finance professional that fails to report suspect transactions is liable for fines ranging from DF 10 to 25 million (\$56,513 to \$141,283). The Department of Treasury receives the proceeds of any assets seized or forfeited in terrorist financing cases.

## International Cooperation

15. Djibouti has not officially reached an agreement with the United States government on money laundering, but Central Bank officials have repeatedly indicated they would fully cooperate if requested. Djibouti has a formal, bilateral agreement with Ethiopia for exchange of information and extradition in money-laundering cases. Furthermore, the anti-money laundering legislation stipulates that Djibouti will cooperate with other countries by exchanging information, assisting in investigations, providing mutual technical assistance and facilitating the extradition process in money laundering cases. In addition, the Central Bank plans to set up a small financial intelligence unit (FIU) in February 2006.

## Financial Intelligence Unit

16. The FIU will be housed within the Central Bank compound and staffed with the Central Bank senior employees who will come under the Governor's direct supervision. The purpose of the FIU is to collect information on potential clandestine or criminal financial networks and to become the expert office on identifying money laundering. The FIU may obtain any record or databank upon request from government entities or financial institutions. It will perform analytical duties and assist the Ministry of Interior (Police) and the Ministry of Justice in any financial criminal investigation. The FIU may enter into agreement with foreign FIUs to share information if the foreign FIUs are bound by similar rules of confidentiality and secrecy. Finally, the FIU will provide guidance to the banking community in the fight against counterfeit money, including US bills.

## Comment

17. Djibouti's money laundering and terrorist financing strategy took a positive step with the approval of the anti-money laundering legislation; however enforcement of this law remains a major challenge. Though the government makes an effort to control all formal transaction points, a large number of informal "hawalas" escape central bank regulation but the FIU is expected to impose more control on "hawalas." In addition, corrupt customs agents can be easily tempted to permit large amounts of money to come through the borders without any declaration. Finally, there is a history of powerful, "untouchable" individuals protecting suspicious financial institutions. As for the DFZ, post will monitor and report on any money laundering activities. End Comment.

RAGSDALE